

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

HB 841 – SB 831

May 8, 2017

SUMMARY OF ORIGINAL BILL: Creates the *K-12 Block Grant Act*. Requires the Department of Education (DOE) to administer a block grant program for K-12 schools based on the average daily membership (ADM) of each local education agency (LEA). Appropriates \$250,000,000 from excess state tax revenue over-collected in fiscal years 2015-2016 and 2016-2017 for the block grant program. Prohibits the use of block grant funds for salaries or other recurring expenditures. Requires each LEA to submit a written report on the use of the block grant funds to the DOE, the State Board of Education, the Finance, Ways and Means Committees of the Senate and the House of Representatives, the Education Committee of the Senate, the Education Administration and Planning Committee of the House of Representatives, and the Director of the Office of Legislative Budget Analysis.

FISCAL IMPACT OF ORIGINAL BILL:

Increase State Revenue –

\$250,000,000/FY17-18/K-12 Block Grant Fund

Increase State Expenditures –

\$250,147,700/FY17-18/General Fund

\$142,200/Each Year FY18-19 through FY26-27/General Fund

\$25,000,000/Each FY17-18 through FY26-27/K-12 Block Grant Fund

Increase Local Revenue –

\$25,000,000/Each Year FY17-18 through FY26-27/Local Education
Agencies

SUMMARY OF AMENDMENT (008721): Deletes and rewrites the bill such that the only substantive changes are: to create an Education Investment Endowment Fund (EIEF) from which K-12 block grant funding is distributed where the State Treasurer serves as the chair of the trustees; authorizes funds transferred to the EIEF to be invested with other funds; authorizes funds to be transferred to the revenue fluctuation reserve in any year in which the revenue fluctuation reserve is used to meet unexpected shortfalls of revenue; moves the first required report date from February 1, 2018 to February 1, 2019, and to each February 1 thereafter, on

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LEA uses of block grant funding; and changes the first year for which block grants are to be distributed from FY17-18 to FY19-20.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Other Fiscal Impact – An appropriation exceeding \$1,000,000 will be made to the Education Investment Endowment Fund (EIEF) in FY18-19. As a result, there will be an increase in state revenue to the EIEF and an increase in state expenditures from the requisite state fund exceeding \$1,000,000 in FY18-19.

There will be a recurring increase in state revenue realized from investment earnings exceeding \$76,600 to the Special Reserve Account of the EIEF in FY18-19 and subsequent years. The DOE will withhold funds necessary to pay administrative costs of the program; all remaining investment earnings will be used to fund block grants to LEAs. All investment income from the endowment fund will be expended on program administration and K-12 block grants.

Earmarking \$1,000,000 as the principal investment to the EIEF will encumber these funds indefinitely and prevent use of such funds for other state purposes, unless transferred to the Revenue Fluctuation Reserve (Rainy Day Fund) as permitted by the provisions of the legislation.

Assumptions for the bill as amended:

- It is assumed an appropriation exceeding \$1,000,000 from state-level funds will be made to the EIEF in FY18-19 for the purpose of providing block grants to LEAs only from the investment income earned on the principal amount exceeding \$1,000,000. Therefore, there will be a one-time increase in state expenditures exceeding \$1,000,000 in FY18-19, and a one-time increase in state revenue to the EIEF exceeding \$1,000,000 in FY18-19.
- The State Treasurer will administer the EIEF. The Treasurer will hold and invest such funds until such time the block grant funds are awarded to LEAs from investment income by the DOE. Based on the provisions of the legislation, money held in the EIEF will be invested in a similar fashion as to funds in the Tennessee Consolidated Retirement System (TCRS), and therefore is assumed to earn the same rate of return.
- All investment income from the EIEF will be deposited into a special reserve account to fund block grants.
- Based on information from TCRS, the average rate of return over the past five years is estimated to be 7.66 percent; this rate of return is assumed to remain constant into perpetuity for EIEF investment funds.

- To the extent funds are invested in the EIEF, the recurring increase in state interest earnings on the principal investment deposited to the special reserve account is estimated to exceed \$76,600 ($\$1,000,000 \times 7.66$ percent) per year beginning in FY18-19.
- Investment income will be used to cover K-12 block grants to local education agencies (LEAs) and program administration.
- The extent of administrative support and personnel needed for the DOE to administer the program is subject to the size and scope of the program.
- The DOE will withhold funds necessary to pay administrative expenditures; all remaining investment revenue will be used to fund block grants to LEAs.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in blue ink that reads "Krista M. Lee". The signature is written in a cursive, flowing style.

Krista M. Lee, Executive Director

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